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30 June 1955

CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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State Department review completed

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

SUMMIT CONFERENCE DEVELOPMENTS Page 1

Foreign Minister Molotov, in public and private statements at San Francisco, emphasized that the summit conference should, in addition to considering closely linked issues of European security and disarmament, arrange for a world economic conference and a conference on Far Eastern matters. He did nothing to counteract the growing impression that the USSR would avoid the German issue at Geneva. Another Soviet official, however, privately claimed that Moscow now was prepared to agree to free all-German elections. [REDACTED]

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AFGHAN-PAKISTANI SITUATION Page 2

Afghan prime minister Daud's abrupt rejection of Pakistan's latest conciliatory communication regarding settlement of the dispute over the Kabul riots seems to have touched off another effort on the part of the Afghan royal family to remove Daud from office. [REDACTED]

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Pakistan has released information to the press that it is preparing to close the Afghan border and break off diplomatic relations. [REDACTED]

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INDONESIAN CRISIS Page 3

A political-military crisis in Indonesia has resulted from army opposition to the installation on 27 June of General Utoyo as the new chief of staff. The motion of no confidence directed against the pro-Communist defense minister which was introduced in parliament on 29 June may lead to a cabinet reshuffle or a cabinet collapse. In the latter event, President Sukarno, who for the first time finds himself challenged by the army and parliament, might appoint a caretaker cabinet, responsible to him rather than to parliament, to govern until a new cabinet could be formed after the elections in September. [REDACTED]

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THE WEEK IN BRIEF

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CURRENT INTELLIGENCE WEEKLY SUMMARY

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PART II

NOTES AND COMMENTS

The Formosa Straits--Military and Political: Two Nationalist planes were intercepted by patrolling Communist jets on 27 June. The Communists, in their military operations, however, have been careful not to prejudice the prospects of Sino-American negotiations. Peiping, periodically announcing that the "question now rests with the United States," appears still to be awaiting reports from intermediaries. [REDACTED]

25X1 [REDACTED] Page 1

25X1

Soviet-Japanese Talks: The position taken by Soviet delegate Malik in the Soviet-Japanese negotiations in London suggests that the USSR is still withholding concessions in the hope that Japan will make proposals which can be used as a basis for bargaining. Moscow has consistently indicated that it desires to normalize relations, but has so far refused to agree even to the return of Japanese prisoners of war. [REDACTED]

25X1 [REDACTED] Page 2

25X1

West German Arms Debate: The Bundestag debate on 27 and 28 June on the bill for calling up 6,000 volunteers for a German army nucleus makes it uncertain whether any Germans will be in uniform before fall. The tenor of the debate on this interim legislation suggests that the government's permanent legislative program for rearmament is headed toward further delays. [REDACTED]

25X1 [REDACTED] Page 4

25X1

The Western Ambassadors' Conference With the Yugoslavs: The conversations held in Belgrade from 24 to 27 June between the Yugoslav under secretary for foreign affairs and the American, British and French ambassadors revealed no fundamental changes in Belgrade's interpretation of the international situation or its foreign policy. The talks revealed that Yugoslavia may be willing to hold limited high-level discussions on strategic and tactical questions. [REDACTED]

25X1 [REDACTED] Page 4

25X1

Soviet and Rumanian Petroleum Exports to the West: The USSR and Rumania have maintained the rate of petroleum exports to the West reached during the Soviet export drive begun in the last half of 1954. Although petroleum products are an important item in balancing Soviet trading accounts with Western nations, these exports are only 8.8 percent of total Soviet and Rumanian production. [REDACTED]

25X1 [REDACTED] Page 6

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South Vietnam: Premier Diem apparently has no intention of entering pre-election talks with the Viet Minh. The Vietnamese government's campaign against the Hoa Hao has entered a new phase, with strong attacks against Ba Cut's forces. [REDACTED] Page 7

25X1
25X1

[REDACTED]

25X1
25X1

Egypt Gaining Influence in Libyan Affairs: King Idriss' marriage four weeks ago to an Egyptian and the subsequent cancellation of his state visit to Turkey are attributed to Prime Minister Ben Halim's efforts to strengthen Egyptian influence in Libya. [REDACTED] Page 9

25X1

The Situation in Cyprus: The situation on Cyprus continues to deteriorate and terrorist activity shows no signs of abating. The British may offer the Cypriots some type of gradual self-determination. This might lead the Papagos government to moderate its tone, but the Cypriots would maintain their extremist position. [REDACTED] Page 10

25X1

French North Africa: It is evident that Paris is still temporizing with regard to Moroccan policy despite the initial promotion of Resident General Grandval as "a new man for a new program." Violence continues and many arrests have been made. The bombing of the USIS office in Tunis on 28 June was probably the work of French extremists. The situation in Algeria shows no signs of improvement, and anti-Americanism is growing among the French settlers. [REDACTED] Page 11

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The Italian Cabinet Crisis: The airing of Christian Democratic factionalism which accompanied Premier Scelba's fall on 22 June has pointed up the difficulty of forming a new Italian government. The outlook remains one of cabinet instability, probably lasting until new elections are held. [REDACTED]

Page 12

25X1

New Labor Agitation Developing in France: A general strike of 1,000,000 French government workers, scheduled for 1 July, underlines the growing restiveness and dissatisfaction of French labor over its lack of effective bargaining power. Even if the government succeeds in preventing a general walkout, nuisance strikes of rail and communications workers are likely. [REDACTED]

Page 13

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Power Balance in Argentina Still Uncertain: The military revolt of 16 June has altered the power structure of the Argentine government at least temporarily by returning the army to a dominant position over labor. The forthcoming announcement of new cabinet ministers will shed light on the durability of this change. [REDACTED]

Page 14

25X1

Labor Unrest Mounts in Chile: Labor unrest in Chile is mounting as a result of continuing inflation. Public employees are scheduled to strike on 1 July, and the directorate of Chile's largest labor confederation, has voted for a general strike to begin on 6 July. [REDACTED]

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PART III

PATTERNS AND PERSPECTIVES

THE SOVIET LEADERSHIP TODAY Page 1

Party secretary Khrushchev has been the chief beneficiary of Malenkov's decline and is today undoubtedly the single most powerful Soviet leader. He does not have a monopoly of power, however, and may have neither the ambition nor the ability to assume Stalin's mantle. Premier Bulganin does not have Khrushchev's authority, but he is probably a force in Soviet policy-making and an important factor in the intricate balance which exists in the Presidium. As Soviet representative at the four-power talks, he will not have a completely free hand, but there is no reason to doubt his ability to speak with authority for the Soviet regime or to pursue a policy which he undoubtedly helped to formulate. [REDACTED]

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REORGANIZATION OF THE SOVIET PLANNING AND CONTROL APPARATUS Page 5

In recent months the Soviet government has reorganized its economic planning and control apparatus. This reorganization reflects a major effort to solve internal problems stemming from the lack of integrated long-range planning, lagging growth of labor productivity, wage inequalities, over-expenditure of wage funds, and difficulties in allocating resources in an increasingly complex economy.

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CHINESE COMMUNIST PARTY PURGE CONTINUES Page 7

The four-year-old purge of the Chinese Communist Party apparently did not end with the public disgrace of Kao Kang and Jao Shu-shih last March. The party has established new control committees and has marked the party rank and file as the principal object of their activity.

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PART I

OF IMMEDIATE INTEREST

SUMMIT CONFERENCE DEVELOPMENTS

Soviet foreign minister Molotov, in his public and private statements at San Francisco, provided most of the new hints of the position the USSR will take at Geneva, although he remained evasive on many points.

At his press conference, Molotov argued that it is up to the heads of government to decide whether to seek any substantive agreements or merely plan procedures for future talks. On the same ground, he avoided questions on which topics would be on the agenda and how long the conference would last.

He told Macmillan that the heads of state should "identify" problems of common concern and refer them to the foreign ministers for attempts at "progress toward settlement," but that any issue which was "undesirable" to any one of the heads of government should be "avoided."

In talks with the British foreign minister, Molotov clarified the issues which the USSR is likely to raise. He spoke of the need for a conference, including Communist China, on Far Eastern matters. He emphasized the important role economic issues would play at the summit talks, referring to his public suggestion for a world trade conference. He also emphasized the importance of the disarmament problem.

The Indian daily Statesman printed an article last

week which may reflect Nehru's views and shed some light on Soviet intentions. It said that the Soviet disarmament plan would be the principal proposal at the summit talks. It also suggested that the USSR might avoid raising the Far Eastern issue because of current efforts to find a solution to the problem, presumably those being undertaken by Menon, and added that Moscow would probably not raise the Indochina issue either.

It seems clear that a main Soviet aim at Geneva will be to get agreement on some general principles, as in the communiqués with the Indians and Yugoslavs, and on a series of future conferences which would serve Soviet purposes. These would probably include a Far East meeting including Peiping, a world trade conference, a collective security meeting of European states such as Moscow has sought in the past, and new talks on disarmament either in the UN subcommittee or in some larger and more public forum.

Molotov gave a very slight hint of interest in French foreign minister Pinay's suggestion for an arrangement between the two existing European security blocs, telling his press conference that the difference between the Pinay plan and the Soviet security proposal "needs study."

Molotov stressed to British foreign minister Macmillan the interrelation of the European security and the

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disarmament questions. This may have been a hint that he could not accept a European arms limitation agreement separate from general agreement on disarmament and the abolition of foreign bases.

He had little to say about the German issue in either public or private statements.

Molotov did nothing to destroy the growing impression that the USSR will try to avoid the German unification issue at Geneva, subordinating it to the European security question and trying to shift the detailed negotiations to all-German meetings or to later talks with Adenauer in Moscow.

The first statement by a responsible Soviet official in recent weeks predicting a German unification offer came from Ambassador Vinogradov in Paris. He told the American ambassador flatly that Moscow is now prepared to accept free all-German elections subject

to strict international control, provided only that foreign troops be first withdrawn.

Vinogradov's statement runs counter to the bulk of evidence that the Soviet Union will seek to avoid the issue. It probably only indicates that Moscow must make an occasional effort to demonstrate its desire for unification with free elections, in order to maintain neutralist hopes and pressures on the United States to meet the USSR halfway with concessions. It could, however, indicate that the USSR is preparing a free elections and neutralization package for a united Germany which it is willing to risk offering eventually--on the assumption that Western rejection will save it from having to carry out or disown the proposal.

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(A roundup of information relating to the "summit conference" is contained in a special SUMMIT CONFERENCE SUPPLEMENT being distributed to recipients of this publication.)

AFGHAN-PAKISTANI SITUATION

Afghan prime minister Daud's abrupt rejection of Pakistan's latest proposal for settlement of the Afghan-Pakistani dispute seems to have inspired a new effort within the Afghan royal family to remove Daud from office.

Pakistan's reply on 25 June to Afghan king Zahir Shah's compromise proposal for the reopening of Pakistani consulates in Jalalabad and Kandahar was conciliatory in tone and narrowed the area of dis-

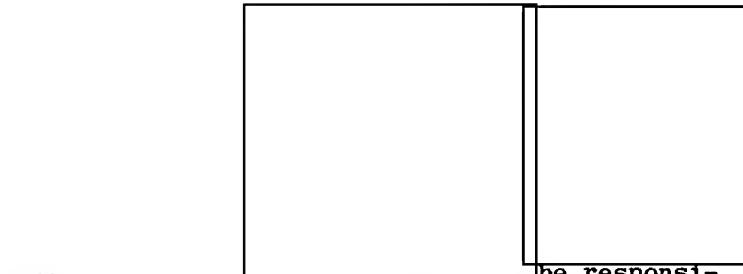
agreement to the point where settlement seemed likely. Prime Minister Daud's rejection of it caused the Egyptian and Saudi Arabian mediators to announce failure of their efforts.

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be responsible for Pakistan's announcement on 28 and 29 June that it is preparing to close the Afghan border and break off diplomatic relations.

If the combination of Pakistani pressure and royal family activities is successful in

bringing about the removal of Daud, settlement of the quarrel between the two nations on the basis of "Islamic brotherhood" would be relatively simple.

The Moscow press reported on 29 June that a five-year Soviet Afghan agreement on reciprocal extension of rights for free transit of goods over each other's territory had been signed in Moscow. Geographic and physical difficulties, however, make it unlikely that the agreement could counter the effect of a Pakistani blockade in time to relieve the pressure on Daud.

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INDONESIAN CRISIS

A political-military crisis in Indonesia has resulted from army opposition to the installation on 27 June of General Utoyo as the new chief of staff.

The motion of no confidence directed against the pro-Communist defense minister which was introduced in parliament on 29 June may lead to a cabinet reshuffle or a cabinet collapse.

In the latter event, President Sukarno, who for the first time finds himself challenged by the army and parliament, might appoint a caretaker cabinet, responsible to him rather than to parliament, to govern until a new cabinet could be formed after the elections in September.

Sukarno and Defense Minister Iwa had been warned

of army opposition to the appointment of Utoyo, who was previously territorial commander in South Sumatra. Utoyo's installation ceremony was boycotted by the country's other six territorial commanders and by the acting chief of staff, Colonel Lubis, who has held this post since the resignation of anti-Communist General Sugeng in early May.

Lubis has since announced to the press that he will not relinquish his duties and claimed that he has the support of the territorial commanders. He has thus far refused to recognize his formal suspension from office.

The territorial commanders claim that the appointment of Utoyo violated a February 1955 agreement between the army and the government that politics would not figure in

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future army appointments. Utoyo, although a neutral so far as army factions are concerned, leans politically toward the National Party, which heads the government.

The real target of the territorial commanders, four of whom are strongly anti-Communist, is Defense Minister Iwa, and the present situation has served to unite them against him. Should the army remain firm in its opposition, the cabinet, which is eager to remain in office until the September elections, may compromise by dropping Iwa before the no-confidence motion comes to a vote.

The no-confidence motion could not pass without support

from parties which are represented in the coalition government. A sudden switch of votes is not unusual in Indonesia, however, and, particularly in view of the National Party's deteriorating prestige, the motion might pass if brought to a vote.

A significant aspect of the situation has been the role of the National Police, which for the first time has abandoned its neutral status and supported the army. The police, which are directly under the prime minister and which include the best-trained security organization in Indonesia, on 27 June refused an order to strengthen the presidential guard.

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PART II

NOTES AND COMMENTS

The Formosa Straits--
Military and Political

Two Nationalist planes were intercepted by patrolling Communist jets on 27 June. The Communists have been careful in their military operations, however, not to prejudice the prospects for Sino-American negotiations.

In one of the attacks of 27 June, Communist jet fighters made their first appearance near the Matsus.

In the first attack, a Nationalist jet trainer

was shot down about 65 miles north of Matsu. In the second, a PBY of a Nationalist civil airline was slightly damaged and forced down 10 miles south of Matsu.

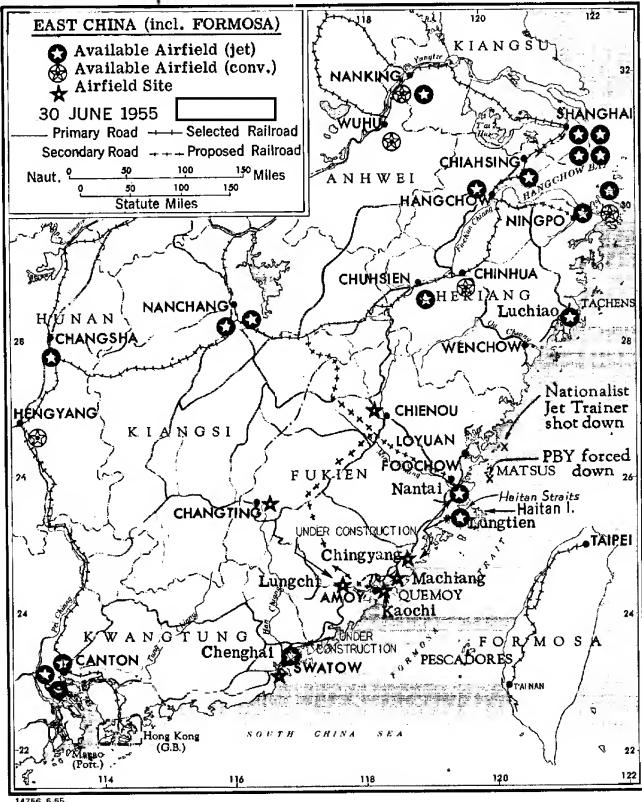
The Chinese Communist navy has apparently increased its amphibious training activity and logistic support in and around the Peiling Peninsula north of the Matsus. The training has involved minor naval vessels, and the logistic activity has involved chiefly junks and steamers escorted by small patrol craft.

There are indications that the Chinese Communist naval strength will soon be increased. A convoy of two Soviet destroyers and four submarines is en route to Tsingtao,

presumably for transfer to the Chinese; this would raise Chinese destroyer strength to four and increase the number of submarines to 11.

Completion of the Litang-Fort Bayard railway line west of Canton has made available additional railway engineer divisions, which could move to Fukien to speed work on the Kueichi-Foochow railway and its branch to Amoy.

the Chinese Communists are nearing completion of a network of roads



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providing the Lungtien airfield with heavy-duty road connections to the coastal highway to Foochow, and with feeder roads from two deep-water piers on the peninsula south of Lungtien. There is considerable road and military construction activity around Haitan Island, including roads leading to possible artillery positions on the peninsula opposite this island. Such artillery emplacements could protect the southern entrance to the Haitan Straits, a favorable staging area for amphibious operations against the Matsus.

Soviet and Chinese Communist spokesmen have continued to endorse Chou En-lai's bid for Sino-American talks. Peiping, periodically announcing that "the question now rests with the United States," appears still to be awaiting reports from intermediaries.

India's Krishna Menon and Burmese premier U Nu are both expected to report in detail to Chou on their conversations in Washington. Both will presumably tell the Chinese that the United States attaches great importance to the question of Americans detained in Communist China.

Chou has indicated both to Menon and to UN secretary general Hammarskjold that he would be willing to release at least some of those detained, including the 11 airmen of the "spy" case, if the United States would permit their relatives to visit them and thus give him a face-saving occasion for commuting their sentences. Under pressure from his intermediaries, Chou would be expected to forego the propaganda advantages of the visits in the interest of advancing Sino-Soviet international strategy.

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Soviet-Japanese Talks

The position taken by Soviet delegate Malik in the Soviet-Japanese negotiations in London suggests that the USSR is still withholding significant concessions in the hope that Japan will make proposals which can be used as a basis for bargaining.

Moscow has consistently indicated that it desires a normalization of relations, but has refused up to now to agree even to the return of Japanese prisoners of war in order to gain this end.

On territorial questions, Malik on 24 June expressed "disappointment" that Japan could not accept the Soviet view that the status of

Habomai, Shikotan, the Kurils and South Sakhalin had been settled.

In answer to Matsumoto's outline of Japan's historical and geographical claims, Malik said on 24 June that territorial claims had already been disposed of, citing Yalta, Potsdam, the Japanese surrender document, and SCAP directives. He stated categorically that further discussion of Japanese territorial claims was "futile," and objected even to including in the communiqué the fact that territorial claims had been discussed.

Malik's reluctance to include such a reference probably resulted from the public revelation earlier this month by

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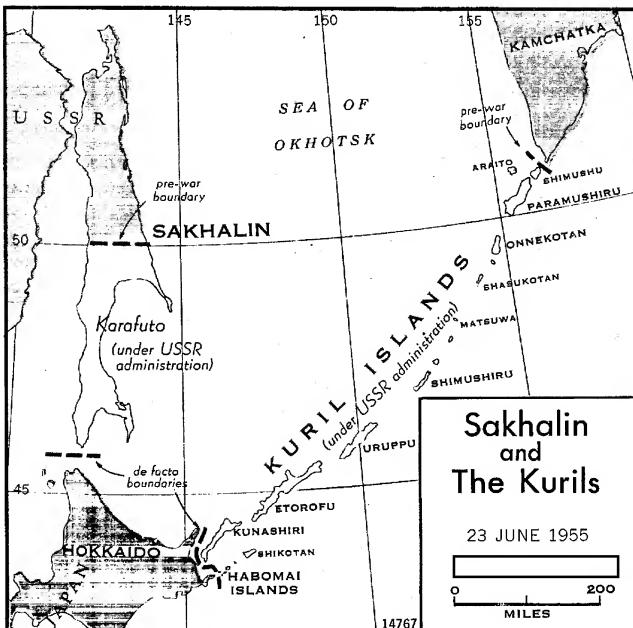
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Foreign Minister Shigemitsu of the extensive demands made by the Soviet Union on 14 June. These demands evoked much unfavorable comment in Japanese official circles and the press. Malik apparently is attempting to avoid a clash between the hard line in private talks and Soviet propaganda stressing the benefits which will accrue to both nations through normalized relations.

Following the meeting on 24 June, a senior official of the Japanese embassy in London told the American embassy that Japanese public opinion was hardening toward the USSR. He then said that before relations could be normalized, Japan would insist on (1) Soviet recognition of Japanese sovereignty over Habomai and Shikotan--both of which have been an integral part of Japan since 1634; (2) withdrawal of the Soviet thesis that the Sea of Japan must be closed to war vessels of all but riparian powers; and (3) repatriation of Japanese prisoners of war.

While the USSR could, at little cost to itself, meet these Japanese demands, it has given no indication that it is ready to make a "package" concession of this size to the Japanese this early in the negotiations. Moscow probably believes that Prime Minister Hatoyama personally feels a sense of urgency in normalizing relations with the USSR and that time is on the Soviet side.



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Since Hatoyama continues to stake his position on the success of the talks, his differences with Shigemitsu on policy could again come into the open. This would seriously damage the ability of the Japanese delegation at London to sustain the above conditions for a settlement.

The Japanese Foreign Ministry is not anxious to hurry the talks, since it believes that the forthcoming summit conference will favorably affect Japan's negotiations with the USSR. The public disclosure of Moscow's stiff terms and uncompromising attitude is having a salutary effect on the Japanese public, which had been misled by Hatoyama into expecting a quick favorable settlement. A continued hardening of opinion against the Soviet Union could strengthen the Foreign Ministry position sufficiently to permit either prolonged negotiations, or, if necessary, a suspension of the talks.

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West German Arms Debate

The bitter debate in the West German Bundestag on 27 and 28 June on the bill for calling up 5,000 volunteers for a German army nucleus has made it uncertain whether any Germans will be in uniform before fall.

Chancellor Adenauer had rallied sufficient support for this interim legislation to pass it on the first reading on 27 June, but additional changes in the text have left little time for the Bundestag to pass the bill in final form before the present Bundestag's adjournment deadline of 15 July.

Opposition to the bill within the government coalition parties stemmed from its loosely drawn provisions which conflicted with the general demand of the Bundestag that civilian control of rearmament be sharply defined. The tenor of this week's debate also suggested that the government's permanent rearmament legislation is headed for difficulties.

During the debate the minor coalition parties and even the Bavarian affiliate of Adenauer's own Christian Democratic Union forced a promise from the government that several aspects of the defense program would be covered by subsequent constitutional amendments. Because of the increasing unreliability of the coalition Refugee Party, it is doubtful that Adenauer can muster the two-

thirds parliamentary majority necessary to ratify such amendments.

It is therefore likely that the government will eventually renege on its promise to seek constitutional amendments relating to armament matters. From a strictly legal point of view, West German rearmament probably does not require further changes in the constitution.

Political controversies over constitutional issues, however, will probably cause considerable friction within the coalition when the government presents some 20 planned permanent arms bills to the parliament during the next six months. Many of these bills will be hotly contested and progress on them will probably be slow.

It also seems likely that many Bundestag members will be disposed to postpone enacting a general conscription law, probably until after the 1957 federal elections.

There are no indications that Adenauer's current defense legislation difficulties stem from any decrease in his popularity with the West German electorate. The situation has derived, rather, from a lack of co-ordination of the government ministries with the parliament in the formation of this interim legislation.

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The Western Ambassadors' Conference With the Yugoslavs

The conversations held in Belgrade from 24 to 27 June between Yugoslav under secretary

for foreign affairs Prica and the American, British, and French ambassadors revealed no

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fundamental changes in Belgrade's interpretation of the international situation or in its foreign policy. The talks served to define Yugoslav views somewhat more accurately, and disclosed areas where Belgrade may have become slightly more amenable to Western desires.

This was particularly true regarding Yugoslav willingness to hold high-level discussions on strategic and tactical questions related to American military aid. While in the past Belgrade has consistently advocated continued Western military aid, and has suggested "technical talks" on that question, it has been chary of discussing its strategic plans, even those affecting Yugoslav troops receiving the equipment.

Tentative agreement has been reached to hold preliminary discussions early in July on an agenda for the future talks. These discussions will indicate whether Yugoslavia is actually willing to discuss plans for forces in the northern area around Ljubljana which have received almost all past aid materiel.

In general, Prica emphasized that his country would continue and even expand its defense efforts but had no intention of branching out along new lines. He said Yugoslavia's co-operation with its Balkan allies guaranteed that its interests coincided in matters of defense with those of the West, but he re-emphasized that Belgrade has no desire to join NATO. Prica did state, however, that NATO is still necessary, as its abandonment would strengthen the other side which has not given up a "bloc" policy.

Prica expanded the usual Belgrade line regarding Soviet intentions, disclosing that his

government believes that the "Soviets are ready to solve questions on the basis of the status quo" by trying to keep all they have gained while finding a modus vivendi. He emphasized that the Yugoslavs do not support this position but feel the West should examine it as a "starting point" for negotiations without trying to balance the concessions made to the USSR in 1945.

Belgrade continues to feel that the West should exploit Soviet initiatives, but without relaxing its defense efforts. The Yugoslavs believe that internal difficulties, which have compelled the post-Stalin changes in the USSR, will force further changes if the USSR is left alone. They also believe, however, that the Soviet Union, if faced by an adamant Western policy, could revert to its old course for a long period of time despite these internal difficulties.

Prica re-emphasized his government's previous position that the German problem is the central one in Europe and that its solution lies in the rapprochement of the two Germanys. He felt that the Soviet leaders do not foresee the early unification of Germany.

Tito, at his 27 June luncheon for the three Western ambassadors, expressed the belief that the USSR would not consider a solution to the German question at Geneva, and probably not until after the anticipated West German-Soviet talks.

In regard to Satellite-Soviet relations, the Yugoslavs feel that some change in relationship is developing, and that considerable impetus for such a change was provided by the recent Soviet-Yugoslav talks. They believe that Soviet

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control over the satellites will be "smoother" than in Stalin's time, but apparently have no clear idea of the precise character of these new relations.

Belgrade's stand in these conversations is in general consistent with the policy of "active coexistence" which Yugoslavia has pursued for the

past six months. It apparently has no present intention of changing its course, but the recent Yugoslav-Soviet discussions may have engendered some suspicions of Soviet motives among Yugoslav leaders which will make them eventually more amenable to Western efforts to promote increased mutual military co-operation.

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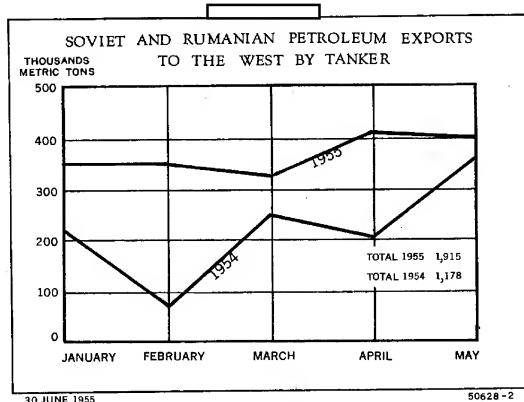
Soviet and Rumanian Petroleum Exports to the West

Tanker shipments of petroleum to the West from the USSR and Rumania have maintained the rate reached during the Soviet export drive begun in the last half of 1954. In the first five months of 1955 the USSR and Rumania exported to the West almost 2,000,000 metric tons, valued at nearly \$40,000,000. This represents an increase in volume of 62 percent over the same period in 1954.

Petroleum has been a readily marketable commodity with which to balance Soviet trading accounts with Western nations, but these exports are only 8.8 percent of total Soviet and Rumanian production.

On the basis of commitments as of January 1955, it was reported that 1955 petroleum exports to the West from the USSR and Rumania might reach 6,000,000 tons, in contrast with 4,500,000 tons in 1954. Protocols added since the first of the year to several trade agreements--including those with Sweden, Egypt, and Israel--involve over a million tons of crude petroleum and products.

Exports of petroleum to the West from the USSR continue to exceed those from Rumania. In the first five months of 1955, Soviet shipments accounted for over 60 percent of the exports. Most of the 1955 increase was shipped from the Black Sea ports of the USSR. Fuel oil continues to be the main item, followed by gas oil, crude oil, gasoline, kerosene, and lubricants.



Finland remains the largest recipient of the exports, with Sweden receiving an almost equal amount. Four countries--Finland, Sweden, Italy, and

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Argentina--receive 60 percent of the petroleum. No new Western markets are known to have been added this year, but shipments to Yugoslavia from the

USSR during the first five months of 1955 have already exceeded the total shipments in 1954. [redacted] (Prepared by ORR)

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South Vietnam

Premier Diem apparently has no intention of entering pre-elections talks with the Viet Minh. Thus far, he has not replied to the British demarche of 22 June urging his government to take the initiative in offering the Communists concrete proposals for these talks.

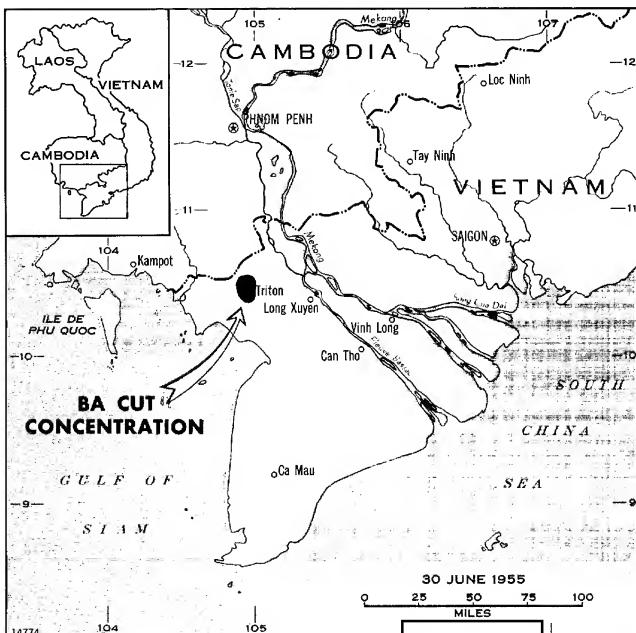
specifically dissociate its declaration from the Geneva agreement.

The Viet Minh is continuing its strong propaganda play, insisting that talks must begin on 20 July. In Peiping, Ho Chi Minh and Chou En-lai joined in reiterating the charge that the United States was trying to prevent peaceful unification and both endorsed the Nehru-Bulganin statement urging fulfillment of the Geneva agreement. Ho's visit to Moscow will provide an additional occasion to publicize the Communist position.

Diem is still preoccupied with two issues--the title and function of Henri Hoppenot as France's new chief representative in Saigon, and the future status of the French Expeditionary Corps in Vietnam. Diem has set the negotiation of a new relationship with the French as a precondition to becoming

involved in election discussions, and he may use this issue as a convenient excuse for delaying action on the election problem.

The expeditionary corps itself has been phasing out more rapidly than was originally planned, according to indications



The Vietnamese foreign minister has indicated, however, that the British proposal will be rejected. The Diem government, instead, will make a general statement declaring itself in favor of unification by means of free, democratic elections but will

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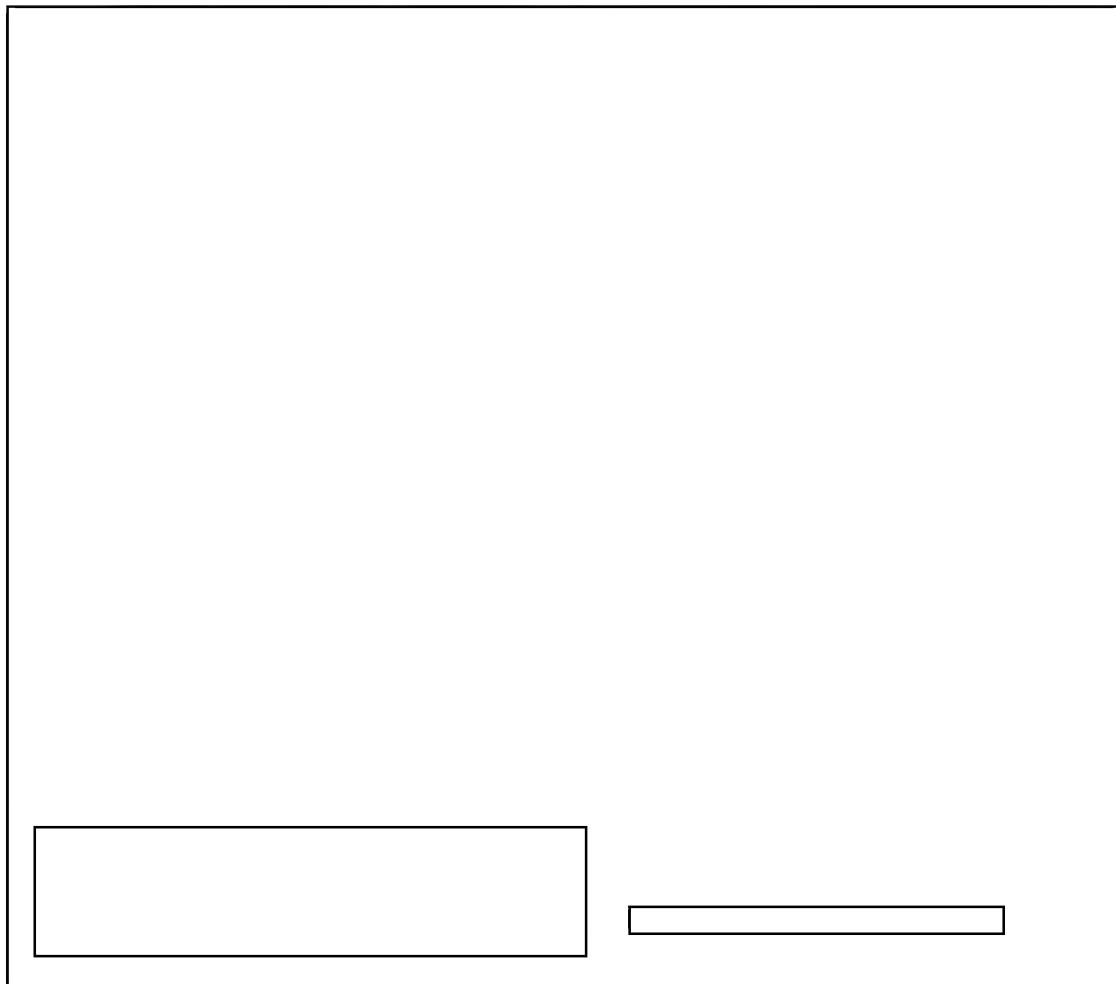
received from General Guillaume, French armed forces chief of staff. Guillaume, who is making an inspection tour of Vietnam to formulate recommendations on the retention of a French military establishment there, states that the expeditionary corps now totals 55,000--a figure considerably below the announced 1 July goal of 75,000. Guillaume appears to favor a ceiling of 50,000 over the next 18 months.

Meanwhile, the Diem government's campaign against the Hoa Hao has entered a new phase,

with strong attacks against the major concentration of Ba Cut's forces near the Cambodian border. The Vietnamese army, victorious in previous operations against General Soai and a brief skirmish with a small Ba Cut force, anticipates a short campaign. Although ultimate victory seems assured, the elimination of Ba Cut's troops may prove the most difficult task undertaken to date, owing to their superior mobility and guerrilla tactics in terrain which favors such warfare.

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Egypt Gaining Influence
In Libyan Affairs

With the apparent connivance of Libyan prime minister Ben Halim, Egypt seems to be gaining a dominant position in Libyan affairs.

King Idriss' marriage four weeks ago to an Egyptian as a second wife and the subsequent cancellation of his state visit to Turkey are attributed

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to Ben Halim's efforts to increase Egyptian influence over the palace.

Ben Halim and the Egyptian ambassador in Tripoli are believed to have arranged the king's marriage on 5 June to an Egyptian.

One of the primary motives of the marriage is apparently the hope that the new wife will produce a male heir. None of 67-year-old Idriss' four previous marriages has provided a living heir and there is, accordingly, considerable uncertainty regarding the future of the dynasty.

If the king's Egyptian wife should give birth to a son who survives, her influence as well as that of Egypt would be immeasurably increased.

The effect of the new marriage on the future position of Queen Fatima and her family is unclear. The queen belongs to the Sharif branch of the royal family and its leading members are commercial and political opponents of the prime minister.

Although the queen is reported to have agreed to the second marriage, the threat it poses to the future of the Sharif branch may precipitate a dynastic struggle, with the question of Egyptian domination of the palace a primary issue.

Former prime minister Mahmud Muntasser recently expressed

his concern to Ambassador Tappin over the threat to Libya's independence as a result of increasing Egyptian penetration and indicated that he considered Ben Halim responsible for the situation. Muntasser said he feared that the large number of Egyptian teachers and lawyers now employed in Libya would gradually reduce Libya to the role of an Egyptian satellite.

Both Egypt and Ben Halim reportedly wanted to prevent Idriss from paying a state visit to Turkey which has been scheduled for the past year. The Turkish ambassador in Tripoli told Ambassador Tappin of his extreme concern over cancellation of the visit and the implicit setback to Turkey's position in Libya. He suggested that interested chiefs of missions in Libya should meet to discuss the growing Egyptian domination of the Libyan government.

The American embassy in Tripoli during the past months has been disturbed by the extent of Egyptian penetration of the Libyan courts, schools, and royal family.

The embassy reports that Egyptian judges have been responsible for many of the delays and difficulties experienced in implementing the American base agreement in Libya. Ben Halim in the past has been generally co-operative in dealings with the embassy.

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25X1The Situation in Cyprus

The situation on Cyprus continues to deteriorate and terrorist activity shows no signs of abating.

The Greek government has gone so far in advocating the union of the island with Greece that it cannot easily withdraw

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from that position. Almost all Greek political parties and affiliations support the movement, which has become a national crusade. The government-controlled Greek radio recently called on Cypriots to "arise and liberate your fatherland." Athens has decided to appeal again to the UN for consideration of self-determination for the islanders.

On Cyprus, terrorist activities continue at a high frequency. In the past week, three persons have been reported killed and 20 wounded. Archbishop Makarios, who leads the movement against Britain, claims to have advised his people against violence. He added, however, that he opposed even more "policies which have driven them to it." Apparently the British police on Cyprus are beginning to feel that they can no longer depend on the loyalty of Greek elements in the Cyprus police force.

There are indications that Britain may offer the Cypriots

a formula providing for some type of gradual self-determination. With the present temper of the Cypriots, however, such a solution is not likely to be acceptable either to them or to pro-union elements in Greece. Such an offer might lead the Papagos government to moderate its tone.

Although there is a report that Makarios might support a liberal constitution, he may no longer be free to make compromises, as important segments in the island clergy are now believed to be even more rabid than he.

Premeditated attacks on American installations and personnel are not likely unless the United States comes to be identified with British policies. There is, however, the risk that through misunderstanding, miscalculation, or irresponsibility, American lives and property might be jeopardized.

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French North Africa

It is evident that Paris is still temporizing with regard to Moroccan policy, despite the initial promotion of Gilbert Grandval as a "new man for a new program."

Grandval is expected to assume his new duties as French resident general about 7 July. He probably will limit himself to maintaining order as well as possible until the French-Tunisian agreements are approved by both houses of the French parliament. Thereafter, Moroccan problems are to be tackled.

Violence continues in spite of widespread arrests. Some 12 French counterterrorists, including a number of police, have been arrested as a result of the investigation of the murder on 11 June of the wealthy Maroc-Presse publisher, Lemalgre-Dubreuil.

The bombing in Tunis on 28 June of the US Information Service and the attempt to bomb the residence of an American vice consul are the first attacks against American installations in French North

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Africa. These bombings may be an isolated expression of the mushrooming anti-Americanism among French settlers in North Africa.

The USIS in Tunis has conducted an exceptionally successful program among Tunisians for several years, and thus is suspect to many French settlers. The vice consul maintains official contacts with Tunisian labor leaders. The bombings were therefore more likely the work of French extremists than of ultranationalists.

Paris is hopeful that the National Assembly will approve the agreement with Tunisia before 14 July. There are indications, however, that despite Premier Faure's intention to press for complete ratification, the Council of the Republic may not consider the agreement before the summer recess on 15 August. Such a delay might lead to a resumption of disorders in Tunisia, where the principal nationalist

party, the Neo-Destour, is actively working for ratification, while French extremists, fanatical nationalists and the small Communist Party oppose the agreement.

The situation in Algeria shows no signs of improvement. Violent terrorism has broken out in the coastal city of Philippeville, and assassinations and economic sabotage continue.

The reforms now being drafted by the governor general have aroused no response among the Moslems and little enthusiasm among the French settlers. National Assembly debate on the Algerian situation is scheduled for 5 July.

Meanwhile, anti-Americanism is growing among French settlers and officials in Algeria. This attitude is the result of rumors propagated by minor officials and bolstered by press reports of American failure to support France in its efforts to deal with the Algerian situation.

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The Italian Cabinet Crisis

The airing of Christian Democratic factionalism which accompanied Premier Scelba's fall on 22 June has further pointed up the difficulty of forming a new Italian government. The outlook remains one of cabinet instability, probably extending until new elections are held.

The early attempts are expected to center on reconstituting the four-party center coalition, but are unlikely to succeed, according to the American embassy in Rome. The obstacles to this solution include the aversion to the

quadrupartite formula on the part of both President Gronchi and the Christian Democratic right wing, which was directly responsible for the overthrow of Scelba.

Other obstacles are the conflicting policy demands of the small center parties and the bids of the Nenni Socialists for an all-Christian Democratic cabinet which would be based on their support or abstention on critical votes.

Should the center coalition prove unworkable, other formulas may be tried, possibly leading to a single party

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Christian Democratic government depending on the 75 Nenni Socialist deputies for support on domestic issues and on the 40 Monarchists on foreign policy questions. This would, however, risk an open break in the Christian Democratic Party, and none of the Christian Democratic factions wants that.

The problem of political instability in Italy probably can be resolved only by new elections. These are now scheduled for 1958, but may be moved up to 1956 by the Christian Democrats if their party does well in upcoming local elections.

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New Labor Agitation
Developing in France

French labor has recently begun to show restiveness over its lack of effective bargaining power by peaceful means and resentment over political exploitation by the dominant labor confederation.

A flurry of spontaneous strikes in key industries has been accompanied by outbursts of violence which recall the semi-insurrectional general strikes of 1947 and 1948. The government has acted quickly to satisfy some wage demands, and has taken steps to avert a general strike of government workers scheduled for 1 July. The French civil servants' union had taken the position that earlier wage increase proposals were inadequate.

Unlike the situation in August 1953, when an explosive labor outburst caught the Communist-led General Labor Confederation (CGT) by surprise, the CGT is now actively pushing the class-warfare theme, and will be ready to exploit to the fullest any strike movement, even if sparked by the free unions.

At the national congress of the CTG held from 12 to

17 June, Secretary General Benoit Frachon demanded a complete return to the old line that the "pauperization" of the working class is inevitable under a capitalist regime. In an unprecedented exhibition of independence, however, several of the most prosperous unions rejected this Communist attempt to subordinate labor aims completely to political ends, and insisted that the working class could progress toward limited objectives.

This was the first time since the Workers Force (FO) broke away from the CGT in 1947 that Communist Party control of the CGT was openly questioned, and party leaders recognized the threat of a dangerous dissident movement which would jeopardize their control at a time when pro-Mendes-France groups in the CGT, FO and the Christian Workers Confederation were discussing prospects for a new mass labor movement.

The strong Communist stand on the inevitable pauperization of the working class was probably motivated by the desire to block the Mendes-France appeal for working-class support.

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Despite Faure's success in satisfying the civil servants, politically slanted maneuvers are anticipated from union leaders sympathetic to the "new left" movement. Short nuisance strikes are in prospect, including a one-hour strike of 10,000 railroad ticket agents.

There is apparently no co-ordination in most of the current and projected strike activity, but if the rail and communications unions follow up their strike threats by a walkout stretching into several weeks, a situation more serious than in 1953 could result.

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Power Balance in Argentina Still Uncertain

The military revolt of 16 June has at least temporarily altered the power structure of the Argentine government by returning the army to a dominant position over labor. The forthcoming announcement of new cabinet ministers will shed light on the durability of this change.

At present the military, especially Minister of the Army Lucero, probably controls the government. The army is reported to have taken great pains to conceal its power over Peron, however, and government communiques claim that the country has returned to normal.

The military junta formed following the revolt was dissolved on 22 June after Peron agreed to satisfy demands resulting from army-navy negotiations.

Army officials, despite some distrust of the president, reportedly agreed to allow Peron time to proceed alone in meeting these demands.

The major reported demands were for (1) the resignation of all cabinet ministers, (2) dropping of the conflict with the church, (3) no punishment for navy men, and (4) "purging" of the CGT.

The announced resignation of all cabinet members on 23 June "to give Peron a free hand," the actual resignation of the head of the CGT on 27 June, and the "irrevocable" resignation of Angel Borlenghi, Peron's minister of interior and justice, on 28 June suggest that Peron is responding to army pressure. High army officials had long opposed Borlenghi's position in the government. Acceptance or rejection of most of the cabinet resignations is apparently still pending, with the probability that a number of the less controversial old cabinet members will be retained.

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civil war might result from the immediate removal of Peron, whose party won almost 68 percent of the total vote in the congressional elections of April 1954. [] the ouster of Peron, as advocated by naval and other military elements, should not even be considered until after the General Confederation of Labor (CGT) has been disarmed and until the position of the non-commissioned officers, who have been favored by Peron, has been ascertained.

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Labor Unrest Mounts in Chile

Labor unrest in Chile is mounting as a result of continuing inflation. Public employees are scheduled to strike on 1 July, and the directorate of Chile's largest labor confederation, CUTCH, has voted for a general strike to begin on 6 July.

The labor unrest stems mainly from the steady depreciation of real wages over the past few years. As of 1 April 1955 the cost of living had risen about 155 percent in a two-year period. Furthermore, scarcely a day passes without new disputes over working conditions. According to government statistics, some 1,470 labor disputes were recorded during 1954.

The Communists, whose organization is outlawed, reportedly do not favor strikes at this time because they fear repressive action by the government. The pro-Communist president of CUTCH is reported to

have stated that there will be no general strike if the government meets the wage demands of the civil servants. The Ibanez administration recently requested urgent action on pay raises.

The prospects for slowing the inflationary spiral in the near future are not bright. President Ibanez never has sponsored a consistent anti-inflationary program; moreover, he lacks majority support in either house of Congress.

Over the past several months practically all wage disputes have been settled through government "mediation"-- that is, enforced government-sponsored compromises. A similar solution seems likely in the present situation. Labor unrest may be expected to continue, however, as long as inflation remains unchecked.

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PART III

PATTERNS AND PERSPECTIVESTHE SOVIET LEADERSHIP TODAY

Party secretary Khrushchev has been the chief beneficiary of Malenkov's decline and is today undoubtedly the single most powerful Soviet leader. He does not have a monopoly of power, however, and may have neither the ambition nor the ability to assume Stalin's mantle. The foundations of group rule have been weakened but not shattered by the elimination of Beria and the political emasculation of Malenkov, and a conscious effort is apparently being made to maintain collective leadership.

The personnel changes which have taken place in the Soviet party and government hierarchy since Malenkov's resignation have resulted in the removal or demotion of some officials closely connected with Malenkov in the past. Their replacements are, in some cases, probably Khrushchev choices, and if such a trend continues, Khrushchev's personal position may become unshakable.

Some of the changes, however, appear to have been dictated largely by a search for competent management, and the true picture of the present situation may be distorted if they are interpreted uniformly in terms of factional alignments in a power struggle. The changes so far effected do not in any case amount to a wholesale shake-up, and it would seem that, if Khrushchev aspires to supreme personal power, he has either preferred or been forced to move with caution.

Khrushchev's role in the Belgrade parleys, in which he overshadowed Premier Bulganin, is the clearest public sign yet that he is the ranking member of the Presidium.

However, his performance there should not be misinterpreted. His energetic and headlong temperament and a fondness for the center of the stage seem to have caused some non-Soviet observers both to underrate his abilities and to exaggerate his power.

Neither before nor since the Belgrade conference has he been given a patently artificial publicity build-up by the Soviet press. The various symbols of public prestige have, instead, been carefully manipulated to indicate pre-eminence clearly short of absolute dominance.

His numerous speeches before party, agricultural and industrial promotional conferences have been duly but not fulsomely reported by the Soviet press. Allusions to collective leadership, among them Bulganin's assurance to the Hearst party that the "principle of collective leadership with us is unshakable," still appear regularly in the press, and alphabetical listing of Presidium members, the literal symbol of collectivity, has been continued.

Perhaps the most interesting recent reference to collectivity and reminder of the proper role of the party's first secretary is found in an article by a venerable Old Bolshevik, G. Petrovsky, published in Pravda on 20 April. "Lenin," Petrovsky writes, "taught us collectivity in our work, often reminding us that all members of the politburo are equal, and that the secretary is elected to fulfill the decisions of the central committee of the party."

In the months since Malenkov's demotion, Khrushchev

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seems to have obtained a freer hand in guiding government policy and to have become even more firmly entrenched in the party apparatus. There is some reason to suppose, also, that he has managed to strengthen his ties within the police apparatus and the armed forces, and may be able to count on greater support from that direction than before. There are almost certainly many men left in important positions, however, who are indebted to Malenkov and there is no sign that open season has been declared on them.

The search for effective leadership of the current agricultural and industrial program is the most plausible explanation of some of the personnel changes which have taken place recently. This was probably somewhat of a factor even in those cases where the political motive is most clear.

While Khrushchev has become the spearhead of both domestic and foreign policy, he does not appear to have the power to make unilateral decisions either in respect to policy or to personnel appointments. His authority is shared with, and probably to some extent depends on, other members of the Presidium, among whom Bulganin, Kaganovich, Mikoyan and perhaps Molotov appear to be the most influential.

Bulganin's Status

There has been a tendency to regard Bulganin from one of two extremes--either as one who assumed all of Malenkov's former power with his title and therefore as a potential rival of Khrushchev or, on the other hand, as a front man and puppet. His role is more complex and less easily defined than either of these alternatives would suggest.

He does not have Khrushchev's authority, but he is probably a force in Soviet policy-making and an important factor in the intricate balance of personal relationships which now exists within the Presidium. He has a reputation for executive ability and, as chairman of the Council of Ministers, presumably exercises a direct and positive influence on the operations of the Soviet government. As Soviet representative at the four-power talks, he will not have a completely free hand, but there is no reason to doubt his ability to speak with authority for the Soviet regime or to pursue a policy which he undoubtedly helped to formulate.

Kaganovich, Molotov, Mikoyan

The three durable Old Bolsheviks, Kaganovich, Molotov and Mikoyan, are men of long experience in particular areas of Soviet policy and none of them, presumably, has pretensions to supreme personal power. For these reasons, they may now be the pivotal force within the "collective," the force which can tip the scales in important deliberations. Of the three, Kaganovich appears to be closest to Khrushchev personally and policy-wise, and his behind-the-scenes influence is probably considerable, particularly in questions relating to industrial development.

Molotov's dignity and prestige appear to have suffered from the regime's efforts to produce a rapprochement with Tito, and it is possible that confidence in his judgment on other questions of foreign relations has been impaired. It seems fairly certain, in any case, that Molotov does not have a paramount voice in setting the broad lines of Soviet foreign policy. Both the

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larger decisions and those affecting relations with Communist states appear to be, instead, subject to collective discussion and agreement within the Presidium.

This arrangement may have been in effect for some time, however, and does not necessarily signify a recent decline in Molotov's authority. There is no indication, furthermore, that his customary role in the practical implementation of foreign policy or in the formulation of domestic policy has been circumscribed. Against this background, his resignation from the Foreign Ministry, which has been rumored since the Belgrade conference, is not inconceivable, but would shed little light on the balance of power within the Presidium, where he would probably continue to serve.

Mikoyan, whose resignation as minister of trade was announced on the eve of Malenkov's demotion, accompanied Khrushchev and Bulganin to Belgrade, presumably to conduct trade negotiations. Since February he has been promoted from deputy to first deputy chairman of the Council of Ministers and apparently continues to act as the overlord of Soviet domestic and foreign trade. If Mikoyan was at one time aligned with Malenkov in favoring increased production of consumers' goods, he does not seem to have been seriously injured by the de-emphasis of that policy.

It has been suggested that his promotion, like that of Pervukhin and Saburov, who were appointed first deputy chairmen of the Council of Ministers at the same time, was a political reward for abandonment of Malenkov. However, this interpretation, which seems to presuppose that the victory of one of two clearly defined factions was the prelude to Malenkov's

demotion, may oversimplify the pattern of current relationships within the Presidium and the manner in which power has shifted there. Some of the Presidium members may have favored the present line earlier and more emphatically than others, but Malenkov's defeat seems to have been the consequence of a gradual shift of opinion which coalesced around Khrushchev, rather than of a sudden showdown between unequal factions.

If this is the case, the promotions of Mikoyan, Pervukhin and Saburov may have been intended, not as payment of a political debt or as a peace offering to a defeated faction, but as a sign that the Presidium's ranks had not been sharply divided by Malenkov's resignation.

Malenkov's Present Status

Malenkov's present status resists clear-cut definition. It is uncertain whether his immediate and complete elimination from the top ranks of the regime was considered impossible or merely undesirable. Such action may have been ruled out on the grounds that it would have disturbed a precarious political balance or because it would have presented an undesirable picture of division and instability, thus undermining the regime's prestige at home and abroad.

Malenkov is still formally a member of the USSR's topmost ruling body and, as such, continues to take his place beside other Presidium members at public functions. He is, however, the only member of the party presidium who sits on the Council of Ministers without being a member of its executive body. It is possible that there is still a considerable body of opinion which favors his point of view; but it seems more likely that his present influence is negligible.

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The process of isolating and discrediting him seems to have been halted for the moment. It may be carried to a conclusion at a later date, of course, but it also is possible that the Soviet leadership is genuinely interested in finding an alternative to the violence which marked Stalin's rule.

Forces Outside the Presidium

As long as power remains in flux, the forces outside the Presidium on which power ultimately depends will probably play a more significant part than they did under Stalin. Efforts to maintain a balance of power at the top and the personal limitations of the Presidium members are likely to strengthen this tendency.

The central committee of the party, a rubber-stamp body under Stalin, appears now to be playing a more central role and may even be a key factor in large policy matters. Its influence, however, appears to derive less from the fact that it is the party's legal governing body than that its members are influential leaders of broad interest groups which because of the diffusion of power since Stalin's death, are capable of exercising strong pressures in the making of top policy. Among these interest groups are the professional party bureaucrats and the economic administrators. The party bureaucrats appear to have gained from Khrushchev's ascendancy, while the economic administrators may have suffered as a result of Malenkov's decline.

The military is another of these forces. While it is yet to be shown that military

leaders have begun to exercise any overriding political influence, their good will doubtless is something especially to be sought and held at a time when crucial policy decisions must be made and power is still in flux. They have therefore recently been granted a number of concessions and prerogatives.

The purely professional judgments of leading military figures probably have greater weight now than at any time since the end of World War II and these judgments will color political and economic decisions. The military, however, is apparently not now, nor is it apt to become, a cohesive or independent political force, and speculation about a Bonapartist solution to the succession problem is unrealistic at the present stage.

The Soviet leadership has passed through its second major readjustment since Stalin's death. While collective leadership remains in force, its base has been narrowed, as a predominance of power has tended to pass more and more into the hands of four or five top leaders. These men appear, however, to recognize the danger to themselves inherent in an excessive concentration of power and will probably attempt to maintain something like a balance of strength within the Presidium.

The struggle for power is muted for the moment, while the leaders focus their main energies on the direction of policy rather than on jockeying for personal position. The present pattern of leadership is basically an improvisation and an experiment, and has yet to prove that it can withstand the stress of serious policy differences.

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REORGANIZATION OF THE SOVIET PLANNING AND CONTROL APPARATUS

In recent months the Soviet government has reorganized its economic planning and control apparatus. The reorganization reflects a major effort to solve internal problems stemming from the lack of integrated long-range planning, lagging growth of labor productivity, wage inequalities, overexpenditure of wage funds, and difficulties in allocating resources in an increasingly complex economy.

Premier Bulganin and party first secretary Khrushchev announced the most important elements of the reorganization in speeches on 16 and 18 May. Four new committees and commissions are now performing the functions which for the most part had been the responsibility of the State Planning Committee (GOSPLAN).

These four new bodies are the State Commission for Long-Range Planning, the State Commission for Current Planning, the State Committee on Labor and Wages, and the State Committee for the Introduction of New Technology into the Economy.

This division of functions indicates that the Soviet leadership has once again turned to the concept of specialized planning committees which was in effect from 1948 to 1953. Soviet leaders now apparently believe again that the task of planning and supervising Russia's growing economy is too large to be effectively administered by a single all-purpose organization.

The new State Commission for Long-Range Planning, under the chairmanship of N.K. Baibakov, former minister of the oil industry, is responsible for the formulation of five-

year plans and for long-run economic policies. The choice of Baibakov would suggest that the first task of this commission will be planning the expansion of the fuel and power base.

The State Commission for Current Planning is to be chaired by First Deputy Premier M.E. Saburov, former head of the combined GOSPLAN. This commission has responsibility for drawing up the annual plans and overseeing their division into quarterly and monthly sections by both the all-Union ministries and the various republic Councils of Ministers. It is also responsible for assuring the even production and distribution of materials and equipment throughout the economy.

The State Committee for Labor and Wages, under First Deputy Premier L.M. Kaganovich, the foremost economic trouble-shooter in the USSR, will probably have as its major functions the swift revision of existing labor norms and wage scales to conform with technological advances and a more rational distribution of manpower in industry and agriculture.

This committee apparently will attempt to improve labor productivity through direct control measures, along with the indirect incentives of providing more consumers' goods for workers.

The State Committee for the Introduction of New Technology into the Economy is headed by V.A. Malyshov, former minister of medium machine building. As its name implies, this committee will control the introduction into the economy of the latest production equipment and methods.

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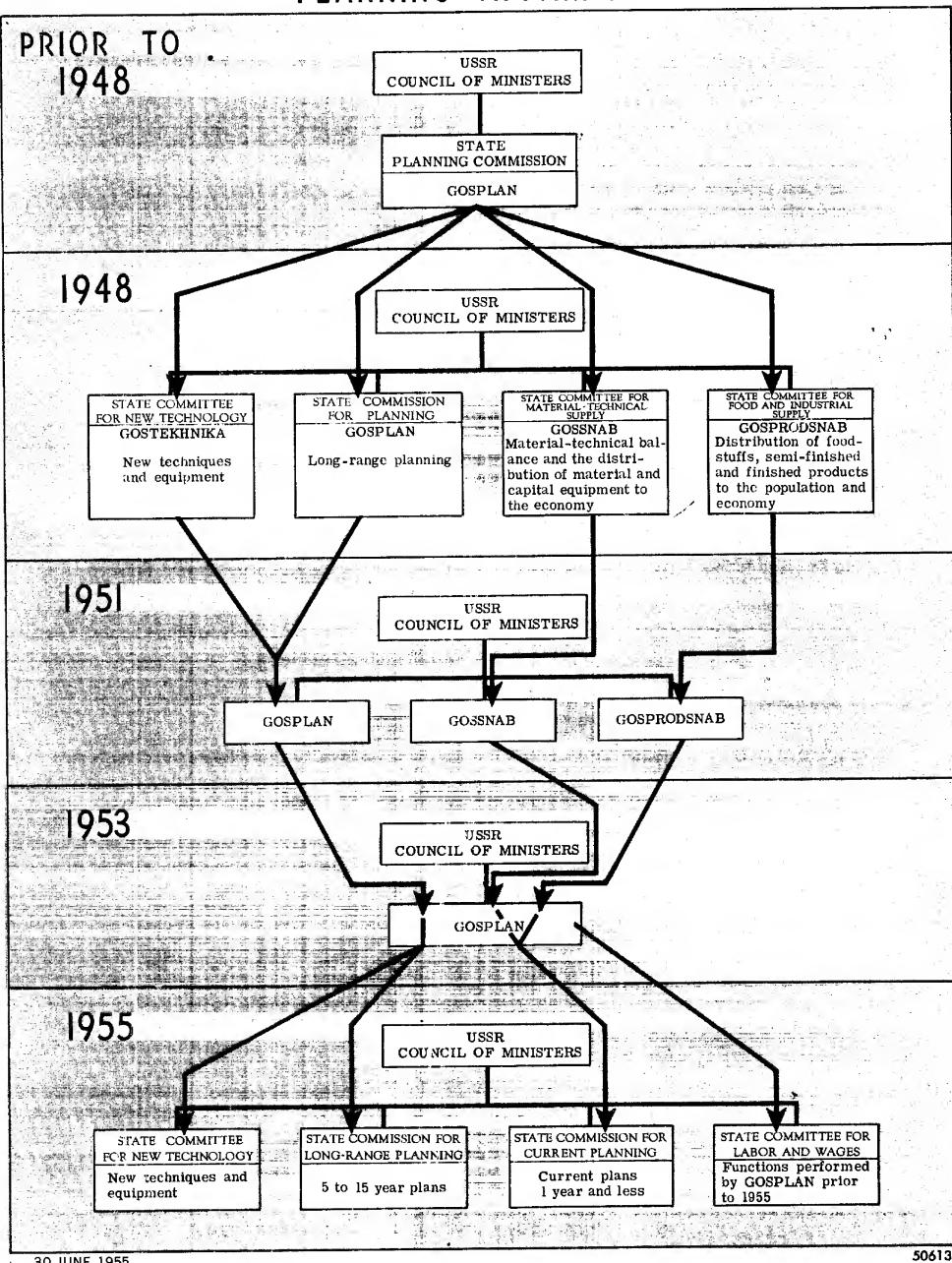
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The initial tasks of the committee will be to increase the efficiency of the machine tool industry and to push the large-scale development of industrial automation.

In addition to these changes in the planning apparatus, Khrushchev recently stated that the operation of the Ministry of State Control would have to be improved. The expansion of financial control functions of the State Bank in mid-1954 indicates that the inspection and control authority of the Soviet government has been revised in order to attain greater effectiveness.

Other State Control responsibilities have probably been

assumed by the new State Commission for Current Planning. It is expected that in the future, the Ministry of State Control will be concerned principally with the critical problem areas of the economy, rather than with all economic activity as in the past.

The recent reforms are the culmination of administrative changes designed to deal with economic problems dating from the Stalin period. The appointment of leaders of the highest rank to head these committees underscores the importance attached to the task of increasing efficiency and of developing an adequate base for planning for future growth.

[Prepared by ORR)

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CHINESE COMMUNIST PARTY PURGE CONTINUES

The four-year-old purge of the Chinese Communist Party apparently did not end with the public disgrace of Kao Kang and Jao Shu-shih last March. The party has established new control committees and has marked the party rank and file as the principal object of their activities.

Peiping's first "reorganization" of the party began in mid-1951, and was scheduled to run through 1954. It was supposed to enlarge the party and improve its quality.

In the early stages of the purge, about one in ten members was found to be either politically unreliable or professionally incompetent, although not all of these were declared beyond redemption. The "reorganization" was completed in government and industry by mid-1953 and was expected to end in rural areas the following summer.

There was no clear indication that it would extend to the top level of the party until Liu Shao-chi, on behalf of Mao Tse-tung and the politburo, addressed the central committee in February 1954. Liu's remarks launched a drive for "unity" among the leadership, aimed explicitly at those "high-ranking cadres" who regarded their region or department as their "independent kingdom."

Although Peiping avoided mentioning names, it became apparent that Kao Kang, nominally the regime's chief planner and until 1953 genuinely the boss of Manchuria, and Jao Shu-shih, who directed the party's organization department and was the leading official in East China, were the principal targets of the "unity" drive.

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The national party conference which confirmed the fall of Kao and Jao was not convened until March 1955, although Liu had specifically called for one to be held in 1954. It is not known whether the delay resulted from the party's reluctance to air publicly a continuing internal struggle, or from hope of being able to announce Kao's and Jao's confession and repentence.

Peiping has treated the Kao-Jao case as primarily a struggle for personal power. The regime's propaganda has also suggested, however, that a top-level disagreement over the rate of China's socialization may have been involved. There is as yet no light on the question of whether either fell because of his relationship--good or bad--with individual Soviet leaders.

Kao and Jao were found guilty of attempting to overthrow the established leadership of the party in order to seize the supreme power of the party and the state. Peiping asserted that they made overtures to high-ranking party members in the army for support.

This charge is supported by criticism directed at army leaders at the February 1954 meeting and by measures undertaken during 1954 to subordinate the armed forces more directly to central authority. No military leaders are known to have been disgraced, but several have apparently lost power.

It seems reasonable to believe that some military leaders would have been attracted by Kao's alleged plan to divide power in the party between old-time rural guerrilla leaders and those who had been underground workers, with guerrilla leaders receiving the larger share. The military's resentment of "new

cadres" may present a continuing problem for Peiping.

The fate of seven minor officials accused of conspiring with Kao and Jao has never been announced. Their punishment may be revealed later as a further warning to possible dissidents, and other conspirators may be disclosed.

Peiping only hinted at party policy differences, and has not specifically charged deviation. Jao was accused of adopting a "rightist" policy of surrender to bourgeois elements. Subsequent editorials have cited Lenin's warning about bourgeois elements who pretend to be "left," and references have been made to the need to air all future disputes "openly and legitimately" within the party.

Kao could have been either "left" or "right." His policies in Manchuria, the regime's pilot area, were certainly advanced, yet as an old guerrilla leader he is said to have sought support from other guerrilla leaders who might be expected to sympathize with peasant resentment of rapid socialization.

In any case, neither he nor Jao repented. Kao's suicide is described as an act of "ultimate betrayal" of the party, and Jao--presumably in prison--"persists in an attitude of attacking the party."

The conference established central and local control committees concerned with strengthening party discipline and with guarding against future disunity. The formation of these committees in itself suggested the continuation of the party "reorganization."

Peiping's propaganda since then has indicated that a campaign to improve party "discipline" and expose "antiparty" members is under way. It has also revealed that the party

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is still dissatisfied with about 10 percent of its members, which in this respect puts the party back where it started four years ago.

Peiping's criticism of party "discipline" has been closely linked with the class struggle, which is expected to be "sharper and more complicated" during the course of Socialist construction. Cadres are said to have only a superficial understanding of the "intensification" of class struggles, and to suffer from bourgeois ideology.

A campaign at this time, when Peiping is pushing an austerity program and consolidating agricultural co-operatives, could be useful in whipping up the cadres' energies for the program. It could also supply a ready-made excuse for any failure of the program or for a hostile peasant reaction.

On the other hand, a genuine cleansing of the party rolls may be necessary, particularly in rural areas where the greatest expansion in membership has occurred. The party admitted 700,000 peasants in 1954, and is conducting a membership drive in rural areas this year.

Peiping's criticism so far has been directed primarily at the party's rank and file. No specific warning has been issued

to "high-ranking cadres" as in the 1954 "unity" drive, and Peiping continues to maintain that the party at the central committee level is united.

Nevertheless, certain former party leaders may be marked for discard. The status of Mao's old rivals Li Li-san and Chen Shao-yu, in particular, remains obscure. Neither attended the National People's Congress in September 1954 nor was elected to the new government. Although Li was active just before the congress, Chen has not been reported by Communist sources since January 1954, the same month in which Kao and Jao disappeared.

Apart from the general problem of Communist control over all aspects of Chinese life, there appears to be no connection between the party "reorganization" and the current campaign against writer Hu Feng and his sympathizers. Peiping itself has stated that the latter case represents "counterrevolutionary" rather than "antiparty" activity.

Hu Feng is accused of publicly and privately questioning the regime's right and competence to impose a party line on creative artists. Peiping has widely publicized his case in an effort to enforce both adherence to and enthusiastic support of the party line on all questions by the Chinese intelligentsia.

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